Including Limited Partners in the Diversity Jurisdiction Analysis

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INTRODUCTION

The Judiciary Act of 1789\(^1\) conferred on the lower federal courts "original cognizance"\(^2\) of civil suits between "a citizen of the State where the suit is brought, and a citizen of another State.\(^3\) Diversity jurisdiction had been a controversial issue at the time of the ratification debates.\(^4\) Beginning with the earliest decisions involving diversity jurisdiction, the Supreme Court has construed the statutory grant narrowly. For example, in 1806 the Supreme Court in *Strawbridge v. Curtiss*\(^5\) interpreted the Judiciary Act to require complete diversity—the citizenship of each plaintiff must differ from that of each defendant.\(^6\) Subsequently, in *Chap-
man v. Barney\textsuperscript{7} and Great Southern Fire Proof Hotel Co. v. Jones,\textsuperscript{8} the Supreme Court further narrowed the potential for diversity jurisdiction by holding that the citizenship of all persons composing an unincorporated association must be considered in determining whether the requirement of complete diversity is satisfied.\textsuperscript{9} This holding has been referred to as the “persons composing” rule.\textsuperscript{10}

The complete diversity rule has occasionally proved difficult to apply.\textsuperscript{11} Nevertheless, the Supreme Court, despite ample opportunity, has not deviated from the general requirement of complete diversity between all persons composing an unincorporated association and the opponent.\textsuperscript{12} Despite the rule’s longevity and practical benefits,\textsuperscript{13} some lower courts have strayed from it when confronted with the limited partnership as a party.\textsuperscript{14} These courts hold that only the citizenship of general partners is relevant in determining whether complete diversity exists.\textsuperscript{15} They appar-
ently rely on a capacity to sue or a real party in interest inquiry\(^{16}\) that examines state law to determine which persons should be deemed to compose the limited partnership.

Although these courts represent only a minority,\(^{17}\) numerous legal commentators have endorsed their approach, or at least their result.\(^{18}\) Most commentators criticize the "traditional" inquiry,\(^{19}\) which includes


16. Although Colonial Realty Corp. v. Bache & Co., 358 F.2d 178 (2d Cir.), cert. denied, 385 U.S. 817 (1966), is the seminal case, it offered little justification for disregarding limited partners. Colonial itself does not use the words, "real party in interest" or "capacity to sue," but courts and commentators have assumed that Judge Friendly relied on one or the other of these concepts. See, e.g., Grynberg v. B.B.L. Assocs., 436 F. Supp. 564, 566-67 (D. Colo. 1977); Note, Limited Partnership Treated as Aggregate for Diversity Purposes, 9 Seton Hall L. Rev. 304, 320-22 (1978) [hereinafter cited as Aggregate Treatment]; 46 Geo. Wash. L. Rev. 657, 662 (1978).


the citizenship of each partner, general and limited. Some writers argue that limited partners should be excluded because "fairness" to the limited partnership as a form of business organization requires an exception to the "persons composing" rule in order to facilitate access to a federal forum. On the other hand, the caseload crisis in the federal courts, coupled with a pervasive belief that diversity jurisdiction has long outlived the original reason for its existence, militates against any manipulation that would increase its scope. Finally, ignoring the citizenship of limited partners plainly conflicts with principles of diversity articulated by the Supreme Court for the last one hundred and eighty years.

This Note begins with an analysis of Supreme Court precedent and contends that the case law requires inclusion of limited partners in a diversity inquiry. It then discusses the real party in interest and capacity to sue rationales advanced to support divergence from complete diversity, and argues that they are inapposite. Moreover, the capacity inquiry does not necessarily lead to exclusion of limited partners. Finally, this Note examines broader policy issues and concludes that the interests of practicability, fairness and judicial economy overwhelmingly favor including limited partners.

20. See Elston Inv., Ltd. v. David Altman Leasing Corp., 731 F.2d 436, 439 (7th Cir. 1984) (citing Chapman as relevant precedent); Carlsberg Resources Corp. v. Cambria Sav. & Loan Ass'n, 554 F.2d 1254, 1258-59 (3d Cir. 1977) (recognizing Chapman and Great Southern as leading cases).

21. See Diversity Jurisdiction, supra note 19, at 672 (basic fairness dictates that limited partnerships and corporations be treated alike for citizenship purposes); Comment, Limited Partnerships in Diversity: The Effect of Rule 17(b) on Federal Jurisdiction, 6 Fordham Urb. L.J. 271, 293 (1978) (limited partnerships' access to federal court should not be inferior to that of any other organization) [hereinafter cited as Effect of Rule 17(b)]; Limited Partners and Diversity, supra note 19, at 315-16 (limited partnership "deprived" unjustly of diversity jurisdiction); 27 Emory L.J. 165, 185 (1978) (limited partnerships no less deserving of access to federal court than corporations); 46 Geo. Wash. L. Rev. 657, 666 (1978) (persons composing result unnecessarily restricts valuable form of business organization). Justice Fortas agreed with the commentators of his day that the distinction between corporations and unincorporated associations for diversity purposes was artificial and resulted in unfair treatment of the unincorporated association. See United Steelworkers v. R.H. Bouligny, Inc., 382 U.S. 145, 149-50 (1965).


Since the Sheran and Isaacman article was published, the burden on the federal judges has increased dramatically. In 1978, the number of civil cases filed per authorized federal judgeship was 348; in 1984 it had risen to 508. 1984 Annual Report of the Dir., Admin. Office, U.S. Courts, at 129 Table 16 (1984) [hereinafter cited as OCA Statistics].

23. See infra note 148 and accompanying text.

24. See supra notes 6 and 9, and infra text accompanying notes 28-36.

25. See infra note 82 and text accompanying infra notes 80 and 85.
I. SUPREME COURT PRECEDENT REQUIRES LITERAL APPLICATION OF THE "PERSONS COMPOSING" RULE

Although the Supreme Court has never decided which members of a modern limited partnership are significant for diversity purposes,26 one hundred years of precedent supplies an answer. *Chapman v. Barney*27 made it clear that the rule involving corporate parties would not be extended to a joint stock company, a "mere partnership."28 While the corporation was then considered, by means of a legal fiction, to have only one citizenship,29 the *Chapman* Court held that the citizenship of an unincorporated association consists of the citizenship of each of its members.30 *Great Southern Fire Proof Hotel Co. v. Jones*31 followed eleven years later and involved an early form of limited partnership organized under the laws of Pennsylvania. Although Pennsylvania considered the partnership an artificial person and a citizen of the state in which it was organized, and although the partnership shared many of the attributes of a corporation,32 it remained within the scope of *Chapman*.33 The *Great Southern* Court reaffirmed *Chapman's* recognition of two distinct rules: a long established rule for corporations, which treated them as entities for diversity purposes,34 and a "persons composing" rule for partnerships and other unincorporated associations.35

More than thirty years later, in *Puerto Rico v. Russell & Co.*,36 a business organization known as a *sociedad en comandita* and considered a "juridical person" in the civil law of Puerto Rico, was deemed a citizen domiciled in Puerto Rico within the meaning of the Organic Act of Puerto Rico.37 Several lower courts immediately interpreted *Russell* as an

27. 129 U.S. 677 (1889).
28. *See id.* at 682.
31. 177 U.S. 449 (1900).
32. *See id.* at 457.
33. *See id.* at 454.
34. *See id.* at 456.
35. *See id.*
36. 288 U.S. 476 (1933).
37. *See id.* at 482. *Russell* expressly distinguished a juridical entity like the *sociedad* from the limited partnership, and cited *Chapman* and *Great Southern* with approval. *See id.* at 480-81. Comparisons between the limited partnership and the *sociedad* invoke a "false analogy." *Id.* at 481. It must also be noted that the purported basis for federal subject matter jurisdiction in *Russell* was not diversity of citizenship; it was jurisdiction over non-Puerto Rican domiciliaries under the Organic Act. *Id.* at 478. Finding the *sociedad* to be a juridical entity meant that the entity's citizenship, not that of its members, was significant. The *sociedad* was a citizen of Puerto Rico, and therefore it was not entitled to a federal forum under the Organic Act. *Id.* at 478-82.
abandonment of the “persons composing” rule and, based on a broad reading of that decision, began treating unincorporated associations as single entities with a single citizenship. Other courts remained faithful to the traditional analysis. The Supreme Court finally resolved this disagreement in United Steelworkers v. R.H. Bouligny, Inc., which explained that Russell had not concerned a diversity of citizenship question. Rather, Russell had required the interpretation of a particular federal statute, and the fitting of “an exotic creation of the civil law... into a federal scheme which knew it not.” Bouligny expressly held that Russell did not affect the “persons composing” rule in any way, thereby foreclosing any extension of the corporate entity concept to unincorporated associations.

After Bouligny, lower courts have assumed that unincorporated associations may not be afforded entity status for purposes of diversity jurisdiction, and that “persons composing” is still the applicable rule.


41. 382 U.S. 145 (1965).

42. At the time of the Russell decision, Puerto Rico was not considered a “State” for diversity purposes, and could not avail itself of the diversity statute. See id. at 152 n.10.

43. Id. at 151. It should also be noted that, “the effect of Russell was to contract jurisdiction of the federal court in Puerto Rico.” Id. at 152.

44. See id. at 149-51.

45. The defendant in Bouligny was the United Steelworkers Union, an unincorporated association. Accordingly, the Court applied the traditional rule and held that the union’s diversity status depended on the citizenship of each and every member. Id. at 146-47. Bouligny therefore reaffirms the distinction between corporations and unincorporated associations, and the vitality of the persons composing rule established in Chapman and Great Southern.


Although preclusion of entity status for unincorporated associations has been generally accepted, a plausible argument could be made for limiting Bouligny to its facts. The complex structure of the labor union would have required the Court to engage in a diffi-
Yet, those who believed that unincorporated associations such as limited partnerships were being unjustly denied access to federal courts remained critical. These courts sought a way to mitigate the harshness of *Bouligny*’s apparent preclusion of entity status and still nominally comply with the “persons composing” rule. One year after *Bouligny*, the Second Circuit in *Colonial Realty Corp. v. Bache & Co.* offered a possible solution. In *Colonial*, the limited partnership argued that complete diversity was lacking because some of its limited partners had the same residence as the corporate plaintiff. Since New York partnership law did not recognize limited partners as “proper parties” to a suit against a partnership, Judge Friendly concluded, without significant elaboration, that their citizenship did not count in a diversity analysis; only the general partners were significant. Thus, state law ultimately determined which “persons” would be considered in the “persons composing” test. *Colonial* and its followers do not view their refinement of the “persons cult determination of the citizenship of that entity. *Bouligny*, 382 U.S. at 152-53. The Court chose instead to leave any change in the traditional rule to the legislature. *Id.* The difficulty encountered in *Bouligny*, however, would often not be present when the party is a different type of unincorporated association, such as a limited partnership. Thus, arguably, a variation of the citizenship rule for those simpler organizations might properly be left to the courts to develop. Nevertheless, Justice Fortas intimated that decisions to change the citizenship rule for any unincorporated association are more appropriately left to Congress. He observed that even the “easy and apparent” solution developed by the courts for citizenship of a corporation was subsequently changed by Congress. *See id.* at 152.

47. One alternative to the persons composing rule, the class action, has existed since before *Bouligny*. *See supra* note 6. The class action device has successfully been applied to the unincorporated association as a party, but cannot be used routinely because the numerosity requirement of Rule 23(a)(1) would prevent some associations from qualifying as a class. The purpose of Rule 23.2 was to give entity treatment to an association where it lacked capacity to sue or be sued as a jural person, and joinder of all members would be impractical. *See Fed. R. Civ. P. 23.2; Note, Civil Procedure—Acquiring Diversity Jurisdiction Over an Unincorporated Association, 60 N.C.L. Rev. 194, 201 (1981). It was not meant as merely a way to circumvent diversity jurisdiction. In jurisdictions that allow a limited partnership to sue or be sued in its common name, joinder is not a problem. Accordingly, some courts have refused to permit class actions in those states. *Suchem, Inc. v. Central Aguirre Sugar Co., 52 F.R.D. 348, 355 (D.P.R. 1971).*

A more questionable device that circumvented complete diversity was introduced in *Jones Knitting Corp. v. A.M. Pullen & Co.*, 50 F.R.D. 311 (S.D.N.Y. 1970), which held that an action against a partnership could be maintained merely by naming partners who did not destroy diversity. *See id.* at 315. The other partners were “at most necessary and not indispensable parties.” *Id.* The device has been little used, and subsequently found to be “unsound” in *Cunard Line Ltd. v. Abney*, 540 F. Supp. 657, 661 (S.D.N.Y. 1982). *Cunard* neither agreed nor disagreed with *Pullen* on whether general partners were indispensable parties. It did find that even if state law allowed a suit against a partnership by naming fewer than all its members, such law would not bear on the federal jurisdiction determination wherein only article III and congressional grants of jurisdiction could be looked to. *See id.* at 662-64.

49. *Id.* at 183.
51. *Id.* at 184.
composing” test as contrary to precedent, and even their critics generally agree that the Supreme Court has never addressed the precise issue of whether limited partners should be counted for diversity. Furthermore, Chapman and Great Southern did not deal with anything resembling the modern two-tiered limited partnership. Bouligny did address a multi-level organization, but it has been argued that the very complexity of the union in Bouligny presented unique problems to the Court that prevent broad application of that decision. The Bouligny Court itself conceded its inability to formulate an appropriate citizenship test and expressly left that task to Congress. Commentators speculate that the Bouligny Court would have modified the “persons composing” test had it been feasible to do so. Therefore, it is argued, Bouligny should not preclude any refinement of the “persons composing” test where the much simpler limited partnership form is concerned. With Chapman and Great Southern distinguished, and Bouligny interpreted narrowly, apparently nothing impeded “refinement” of the “persons composing” test.

In justifying their result, Colonial and its adherents tend to discount the long history of the “persons composing” test as the simple uniform rule for unincorporated associations. Had the Bouligny Court found this traditional rule inadequate for a multi-level association, it could have modified or abandoned the test rather than apply it. When applied to limited partnership, the test dictates that all members, including limited partners, are significant in the diversity formula. The sounder interpretation of Supreme Court precedent supports this result.

Nevertheless, some courts have improperly modified the “persons composing” test, with the result that only general partners are included. In an attempt to identify which persons compose the partner-

52. See supra note 26.

53. The joint stock company involved in Chapman did consist of two classes of members in the sense that only the president had capacity to sue on behalf of the company. See Chapman v. Barney, 129 U.S. 677, 679 (1889). In a joint stock company, however, all members share liability, and all are co-owners who control the managers of the company. J. Crane & A. Bromberg, Law of Partnership 178-80 (1968). The limited partnership association in Great Southern can be distinguished from the modern limited partnership. The former has only one class of partner; each partner subscribes to part of the capital and none of them has personal liability for the association's debts. See id. at 147.

54. See, e.g., Diversity Jurisdiction, supra note 19, at 670; Aggregate Treatment, supra note 16, at 329; Limited Partnerships, supra note 18, at 392 & n.60.


56. See, e.g., Diversity Jurisdiction, supra note 19, at 670 (enormous practical problems deterred Bouligny Court from expanding diversity); Aggregate Treatment, supra note 16, at 329 (Court feared prospect of deciding where labor union was organized); Limited Partnerships, supra note 18, at 392 & n.60 (same).

57. See supra note 54 and accompanying text.


Colonial presumably relied on a capacity to sue theory. See supra note 16 and accom-
ship for citizenship purposes, those courts manipulate the concepts of capacity to sue or real party in interest.

II. CAPACITY TO SUE AND REAL PARTY IN INTEREST CONCEPTS ARE INAPPROPRIATE TO CITIZENSHIP

A certain overlap exists between the results of a real party in interest, a capacity to sue and a citizenship inquiry because each has a role in the threshold issues that determine whether a case will be heard. Nevertheless, the concepts remain distinct in theory and in function. Indeed, examination of their respective origins reveals that neither real party in interest nor capacity to sue was designed to affect federal subject matter jurisdiction. Consequently, the failure to recognize the citizenship inquiry as a separate part of the jurisdictional issue in a diversity case misinterprets both Supreme Court precedent and the function of the Federal Rules of Civil Procedure.

A. Capacity to Sue

Federal Rule of Civil Procedure 17(b) provides that the capacity to sue or be sued of a named party, other than an individual or a corporation, shall be determined by the law of the forum state. It has been argued that in determining whether complete diversity exists between a limited partnership and its opponent, courts should include the citizenship of only those members of the limited partnership with capacity to sue under the applicable state law.

59. See infra note 119 and accompanying text. See Kennedy, Federal Rule 17(a): Will the Real Party in Interest Please Stand?, 51 Minn. L. Rev. 675, 724 (1967) (suggesting abolition of real party in interest because same results are reached under capacity, joinder and substantive law).

60. See 6 C. Wright & A. Miller, Federal Practice and Procedure § 1541, at 633-38 (1971). See infra notes 109-13, 118-20, 140-41 and accompanying text. For a comparison of real party in interest with capacity to sue, see 6 C. Wright & A. Miller, supra, § 1542, at 639.

61. See infra notes 83-84, 128-29 and accompanying text.


63. Fed. R. Civ. P. 17(b) states:

The capacity of an individual, other than one acting in a representative capacity, to sue or be sued shall be determined by the law of his domicile. The capacity of a corporation to sue or be sued shall be determined by the law under which it was organized. In all other cases capacity to sue or be sued shall be determined by the law of the state in which the district court is held . . . .

Id.

64. See, e.g., Colonial Realty Corp. v. Bache & Co., 358 F.2d 178, 183-84 (2d Cir.),
It may, of course, be necessary to determine who has capacity to sue in a diversity case, but not because capacity controls citizenship. The function of the capacity inquiry is to ensure that state law recognizes the competence of the parties before the court. Rule 17(b) further ensures that a party who is barred by state law from bringing a particular claim does not circumvent that state law by bringing suit in federal court under diversity. When these objectives of Rule 17(b) have been accomplished, the court then proceeds to determine the parties' respective citizenships, using the method developed by federal common law.

It has been noted that with general partnerships, the group that has capacity to sue under state law is identical to the group whose citizenship is...
determines diversity status. From this observation the erroneous inference was drawn that state capacity laws determine citizenship for diversity purposes. The uniformity of the two groups, however, only occurs because the state law that allows each general partner to sue coincidentally yields the same result as the jurisdictional rule requiring the citizenship of all persons composing the unincorporated association to be included. This coincidence does not occur with the limited partnership because the persons composing it include more than just those with capacity to sue.

The distinction is not unique to the limited partnership. In Bouligny, the union had capacity to sue as a party; it was subject matter jurisdiction that was lacking. Clearly, the Court did not hold that capacity simultaneously determines citizenship.

The converse, that citizenship does not simultaneously confer capacity, may also be true. For example, when a foreign corporation does business in New York without a license, it lacks capacity to sue in New York courts and, therefore, also lacks capacity to sue in federal courts sitting in New York. In such a case, the deficiency in the corporate party has nothing to do with the power of the court to hear the case. That same corporation may be subject to the court’s jurisdiction as a defendant, and, assuming the plaintiff is diverse from the corporation, the federal court would have subject matter jurisdiction.

Finally, to confer jurisdictional powers on Rule 17(b) not only was beyond the contemplation of the creators of the Federal Rules, but also was expressly prohibited by them. Rule 82 forbids construing the

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70. See Carlsberg Resources Corp. v. Cambria Sav. & Loan Ass’n, 554 F.2d 1254, 1263 (3d Cir. 1977) (Hunter, J., dissenting). The result occurs in states in which a general partnership may sue or be sued in the name of any of its members. Thus, each partner may sue, and each partner is counted for diversity purposes.

71. See id. at 1263-64 (Hunter, J., dissenting).

72. Limited partners are members of the association, but they are ordinarily denied capacity to sue in both ULPA and RULPA jurisdictions. See U.L.P.A. § 26 (1916) (limited partners are not proper parties to a suit). The R.U.L.P.A. § 1001 (1976) expressly mentions only one instance when a limited partner may sue: to bring a derivative suit when the general partners have refused to do so, or when a request to them would be futile.


74. See N.Y. Bus. Corp. Law § 1312(a) (McKinney 1963).

75. See Woods v. Interstate Realty Co., 337 U.S. 535, 537-38 (1948) (confirming the decision in Angel v. Bullington, 330 U.S. 183 (1947), which held that where a state court has closed its doors to a particular litigant, the federal court is precluded from maintaining diversity jurisdiction).

76. N.Y. Bus. Corp. Law § 1312(b) (McKinney 1963).

77. There are cases where a state door-closing statute does not promote a clear state policy, and has the effect of discriminating against nonresidents. There, the federal interest in providing a convenient forum for the action might persuade a federal district court that the state statute does not restrict the federal court’s jurisdiction. See Szantay v. Beech Aircraft Corp., 349 F.2d 60, 66 (4th Cir. 1965).

78. Fed. R. Civ. P. 82 states in pertinent part: “These rules shall not be construed to extend or limit the jurisdiction of the United States district courts or the venue of actions
Rules to expand or contract federal jurisdiction.\textsuperscript{79} A fortiori, it precludes application of a Rule as a per se jurisdictional test.

Even assuming that the rationale equating capacity with citizenship is valid, a “general partners only” rule would not always result when applied to limited partnerships.\textsuperscript{80} If under state law a limited partnership can stand before the court as a named party,\textsuperscript{81} then a capacity inquiry would point to giving the limited partnership entity status. Lower courts, however, assume that the Supreme Court has precluded entity
status for partnerships.\textsuperscript{82}

Capacity alone as a test for diversity conflicts with the rules as articulated by the Supreme Court. It is, moreover, beyond the purpose of Rule 17(b). At one time, common law did not recognize an unincorporated association's right to sue or be sued as an entity. Today, some states allow it by statute.\textsuperscript{83} Rule 17(b) merely requires federal courts to follow state law in determining whether to allow an unincorporated association to sue as an entity.\textsuperscript{84} Consequently, Rule 17(b) is irrelevant to the diversity jurisdiction inquiry which, until the Supreme Court or Congress acts otherwise, still looks to the citizenship of each member of an unincorporated association.

B. "Capacity Plus"

In an effort to reconcile the exclusion of limited partners with the "persons composing" rule mandated by the Supreme Court, some commentators have urged an analysis that includes those who have both capacity to sue under Rule 17(b) and those who share liability and participate in the control of the business—a "capacity plus" inquiry.\textsuperscript{85} Such an analysis follows Supreme Court precedent no better than an unembellished Rule 17(b) analysis.\textsuperscript{86} Not only is the standard by which a court would measure control and liability somewhat uncertain, but its application would fail to recognize only general partners as jurisdictionally significant.

A general partner may actually have less at stake than a limited partner when the limited partnership becomes a party defendant in a civil action. It is true that limited partners are only liable for partnership debts up to the amount of their contribution,\textsuperscript{87} while general partners may also be jointly and severally liable as individuals.\textsuperscript{88} Any individual

\textsuperscript{82} See \textit{supra} note 46 and accompanying text.


\textsuperscript{84} See 6 C. Wright & A. Miller, \textit{supra} note 60, § 1564, at 740-42; 7A C. Wright & A. Miller, \textit{supra} note 83, § 1861, at 451.

\textsuperscript{85} This analysis was proposed a year after the \textit{Carlsberg} decision. \textit{See Limited Partnerships, supra} note 18, at 400-02. The author noted that a pure Rule 17(b) analysis would not explain the general partners only result of the \textit{Colonial} line of cases. \textit{See id.} at 401. However, if controlling persons who lacked capacity to sue, namely other general partners, were also included, the desired result would occur. The author believed that his extended capacity inquiry would yield a result identical to a real party in interest inquiry. \textit{See id.} at 400-04.

\textsuperscript{86} Insofar as it would result in less than all the members of the limited partnership being counted for diversity purposes, the test conflicts with Chapman v. Barney, 129 U.S. 677 (1889) and Great S. Fire Proof Hotel Co. v. Jones, 177 U.S. 449 (1900), which were endorsed in Navarro Sav. Ass'n v. Lee, 446 U.S. 458, 461 (1980).

\textsuperscript{87} R.U.L.P.A. § 303 (1976); U.L.P.A. § 7 (1916).

\textsuperscript{88} Section 9 of the ULPA refers to the liability of general partners in limited partnerships. It incorporates by reference the Uniform Partnership Act's section on partners' liability: "All partners are liable: (a) Jointly and severally for everything chargeable to
liability, however, is no more than potential when only the partnership is being sued, because without gaining personal jurisdiction over particular partners and joining them to the action as individuals, their own assets cannot be reached. \(^9\) No one, as a general rule, is subject to personal liability when the suit is against the limited partnership.\(^9\) Since only the partnership assets are at risk, and often the contribution of the limited partners toward the purchase of those assets exceeds that of the general partners, the limited partners' liability may actually be greater than that of the general partners. Accordingly, limited partners could readily be included under the liability analysis. Furthermore, when the partnership is plaintiff, the liability prong of the "capacity plus" approach is meaningless.

Similarly, limited partners could satisfy a control inquiry, especially in those jurisdictions that have modeled their limited partnership statute on the Revised Uniform Limited Partnership Act (RULPA),\(^9\) which gives

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89. See, e.g., Detro v. United States, 264 F.2d 658, 661-62 (5th Cir. 1959) (personal property of partners who were not personally served is not subject to judgments against the partnership); Antiel v. V.W.E. Inv., 353 N.W.2d 681, 683 (Minn. App. 1984) (judgment binds partnership, but not individual partners improperly served); Eule v. Eule Motor Sales, 34 N.J. 537, 547, 170 A.2d 241, 246 (1961) (judgment against partnership does not bind partners individually).

90. Of course, the "potential" personal liability of the general partners often becomes actual liability when the general partners are served individually. Yet, the resolution of a jurisdictional inquiry to determine the citizenship of a partnership party should not depend on the presence or absence of other individual defendants. The scope of any citizenship inquiry should be confined to the characteristics of the particular party.

91. In the extraordinary situation where a judgment forces a partnership into bankruptcy, and the partnership assets are insufficient, the partners "must contribute towards the losses." U.P.A. § 18(a) (1914); see Crane & Bromberg, supra note 83, at 524. The same is true for general partners in a limited partnership, whereas the limited partners' surplus of assets over liabilities is not counted as property of the bankrupt partnership.

Id. at 529, 562.
far more power to the cautious limited partner than does the original Uniform Limited Partnership Act (ULPA). Sections 302 and 303 of the RULPA give a limited partner considerable power in certain circumstances without the concomitant risk of incurring a general partner's liability. Limited partners in RULPA jurisdictions can remove general partners and bring derivative suits. They may vote and veto extensively concerning important matters if the partnership agreement allows them to do so, may act as the partnership's agents, contractors, employees or sureties, and may seek dissolution of the partnership.

Even under the original act, still in force in a sizable minority of jurisdictions, limited partners have certain powers, including voting...
rights and the ability to act as advisors or consultants when the partnership is experiencing difficulty. They have the power to cause dissolution of the partnership and may be the directors of a corporation that is the sole general partner. Furthermore, even though their control is technically curbed by statute, it is uncertain how much influence the monied limited partners exert.

Therefore, a jurisdictional test that looks beyond capacity to sue and also counts members with liability or control, or both, would not consistently yield a "general partners only" result, because in some situations the limited partners may exercise more power and have more capital at risk than the general partners.

C. Real Party in Interest

In an analysis similar to that of capacity to sue, some commentators have focused on the real party in interest concept as a rationale for


103. See U.L.P.A. § 10 (1916). For a further discussion of the limited partners' powers to bring derivative suits or seek dissolution under § 10, see ALI Materials 1983, supra note 26, at 82-84.

104. See U.L.P.A. § 9(1)(e) (1916) (consent of all limited partners needed to admit person as general partner); R.U.L.P.A. § 401 (1976) (each partner must agree to admission of new general partners). “Partner” is defined as limited or general in RULPA § 101(8). See ALI Materials 1983, supra note 26, at 96.


108. A functional test that examines each partner’s contributions and control would be lengthy and impractical. See infra notes 149-53 and accompanying text. A presumption that limited partners do not exercise any significant control in a limited partnership exceeding a determined number of members would not solve the problem, since the party opposed to the result of the presumption would be entitled to rebut it. The court would then still be required to engage in a sometimes difficult threshold inquiry. Moreover, it would be difficult to create a realistic presumption concerning how much capital each limited partner had contributed.

109. Fed. R. Civ. P. 17(a) states in pertinent part:

Every action shall be prosecuted in the name of the real party in interest. An executor, administrator, guardian, bailee, trustee of an express trust, a party with whom or in whose name a contract has been made for the benefit of an-
excluding limited partners.\textsuperscript{110} Although the Supreme Court in \textit{Navarro Savings Association v. Lee}\textsuperscript{111} examined the role of a real party in interest inquiry within the diversity analysis,\textsuperscript{112} the decision cannot properly be interpreted as an endorsement of real party in interest as determinant of whose citizenship is significant in a diversity case.\textsuperscript{113} In \textit{Navarro}, eight individual trustees of a business trust sued in their own names in federal court with jurisdiction based on diversity of citizenship.\textsuperscript{114} Defendant, a Texas savings association, argued that the plaintiff was the business trust itself, which was in substance an unincorporated association, whose beneficial shareholders were therefore relevant in a diversity inquiry.\textsuperscript{115} Because some of those shareholders were Texas citizens, defendant argued, complete diversity was lacking.\textsuperscript{116} The Court, however, pointed out that the plaintiff was not the business trust. Rather, the individual trustees, who were long recognized as entitled to bring diversity suits in their own names on the basis of their own citizenship, were the plaintiffs.\textsuperscript{117} 

Any attempt to extend \textit{Navarro} to justify a “general partners only” rule in the limited partnership situation fails for two reasons. First, the
Supreme Court expressly distinguished the business trust involved in that case from an unincorporated association.\textsuperscript{118} More importantly, even within the business trust context, the Court did not find real party in interest to be dispositive of the citizenship inquiry in a diversity analysis.\textsuperscript{119}

Although real party in interest, like capacity to sue, does play a part in a court's overall decision on whether it can hear a case,\textsuperscript{120} it does not bear on the citizenship issue. In Navarro, the Court first decided that the business trust was an express trust.\textsuperscript{121} Consequently, Rule 17(a), codifying a longstanding common law rule,\textsuperscript{122} expressly allowed the trustees to sue in their own right without regard to the citizenship of the trust beneficiaries.\textsuperscript{123} Since the trustees sued as individuals, the Court ruled that the entity was simply not a party to the suit.\textsuperscript{124}

Attempts have been made to extend by analogy the real party in interest analysis to limited partnerships in order to justify excluding the citizenship of limited partners.\textsuperscript{125} The analogy, however, fails\textsuperscript{126} for several reasons. Initially, it must be emphasized that the history of Rule 17(a) lacks any direct jurisdictional purpose.\textsuperscript{127} The Rule was originally

\begin{itemize}
  \item \textsuperscript{118} See id.
  \item \textsuperscript{119} See id. n.9. Because there is a "rough symmetry," \textit{id.}, between Rule 17(a)'s real party in interest standard and the rule that diversity jurisdiction depends on the citizenship of real parties to the controversy, it may be that in many cases the real party in interest and the one whose citizenship is examined for diversity are identical. This identical result, however, will not occur in all cases. \textit{See id.} The Court noted that in Bouligny, the labor union was the Rule 17(a) real party in interest, but for diversity purposes, the union had to rely on the citizenship of each of its members. \textit{See id.}
  \item \textsuperscript{120} Real party in interest identifies the person who possesses an enforceable right, and is limited to plaintiffs. 6 C. Wright & A. Miller, \textit{supra} note 60, § 1542, at 639.
  \item \textsuperscript{121} \textit{See Navarro}, 446 U.S. at 462.
  \item \textsuperscript{122} \textit{See infra} note 137.
  \item \textsuperscript{123} Rule 17(a) states in pertinent part: "An executor, administrator, guardian, bailee, trustee of an express trust, . . . or a party authorized by statute may sue in his own name without joining with him the party for whose benefit the action is brought." Fed. R. Civ. P. 17(a).
  \item \textsuperscript{124} \textit{See Navarro}, 446 U.S. at 459-62.
  \item \textsuperscript{125} \textit{See, e.g.}, Elston Inv. Ltd. v. David Altman Leasing Corp., 731 F.2d 436, 438 (7th Cir. 1984) (defendant unsuccessfully argued business trust-limited partnership analogy); \textit{Real Parties, supra} note 10, at 1063-65 (real party in interest analysis is well suited to limited partnerships). Even before Navarro contributed to the real party analysis, it had been suggested that the citizenship of the real party in interest was significant in determining diversity. \textit{See Lee v. Navarro Sav. Ass'n}, 597 F.2d 421, 425-27 (5th Cir. 1979) (dicta) (court analogized a business trust to a limited partnership), \textit{aff'd}, 446 U.S. 458 (1980); \textit{Common Law, supra} note 110, at 264 (limited partnerships should proceed under real party jurisdictional rule similar to Navarro); \textit{Business Entities, supra} note 18, at 247-51 (real party in interest should determine citizenship in diversity cases).
  \item \textsuperscript{126} \textit{See, e.g.}, New York State Teachers Retirement Sys. v. Kalkus, 764 F.2d 1015, 1018 (4th Cir. 1985) (analogy approach rejected); Elston Inv., Ltd. v. David Altman Leasing Corp., 731 F.2d 436, 438 (7th Cir. 1984) (same); Trent Realty Assoc's. v. First Fed. Sav. & Loan Ass'n, 657 F.2d 29, 32 (3d Cir. 1981) (same).
  \item \textsuperscript{127} \textit{See 3A J. Moore, supra} note 68, § 17.09[1.1], at 17-82 ("At the outset it must be remembered that Rule 17(a) does not enlarge or restrict federal jurisdiction.").
\end{itemize}
drafted to assist only plaintiffs.\textsuperscript{128} Although the Rule has since developed a protective function vis a vis the defendant as well—to ensure proper preclusive effect to the judgment and to shield the defendant from multiple suits rightly brought together—this purpose has no bearing on the jurisdictional issue.\textsuperscript{129} Furthermore, as stated earlier, Rule 82 prohibits expansion or contraction of federal jurisdiction through construction of the Federal Rules of Civil Procedure.\textsuperscript{131}

\textit{Navarro} itself does not sanction use of a real party in interest test to determine jurisdiction.\textsuperscript{132} Even if \textit{Navarro} could be read to sanction its use in the business trust case, it should not be extended to other entities merely because their structures are somewhat similar.\textsuperscript{133} In \textit{Navarro}, the Court could not resolve the jurisdictional question until it had properly categorized the business trust as an unincorporated association, a corporation or an express trust.\textsuperscript{134} The Court duly noted the similarities between business trusts and unincorporated associations, and that they also shared some corporate characteristics, yet none of these factors was decisive.\textsuperscript{135} Instead, the Court found that the business trust was an express trust.\textsuperscript{136} No policy considerations went into the \textit{Navarro} Court's determination. After determining that respondent was an express trust, the Court applied the proper citizenship test for express trusts. Because one hundred and fifty years of precedent allowed trustees of an express trust to bring diversity actions in their own names and on the basis of their own citizenship, no new rule was needed.\textsuperscript{137} Unincorporated associations, like limited partnerships that do not come under the express trust label, do not come under the scope of \textit{Navarro}.

Although, as in \textit{Navarro}, the real party in interest and the citizenship

\textsuperscript{128} See White Hall Bldg. Corp. v. Profexray Inc., 387 F. Supp. 1202, 1206 (E.D. Pa. 1974) (the purpose of 17(a) was to change the old common law rule that prevented an assignee of a chose in action from prosecuting except in the name of the assignor), aff'd sub nom. Quaglia v. Profexray Inc., 578 F.2d 1375 (1978); 3A J. Moore, supra note 68, c 17.09[1.-1], at 17-82 (same).


\textsuperscript{130} See supra note 127 and accompanying text. Moreover, real party in interest objections can be waived. See 6 C. Wright & A. Miller, supra note 60, § 1554, at 700-02. Subject matter jurisdiction of course can never be waived by the parties. See Mansfield, C. & L.M. Ry. v. Swan, 111 U.S. 379, 384 (1884).

\textsuperscript{131} See supra notes 78-79 and accompanying text.

\textsuperscript{132} See supra note 126 and accompanying text.

\textsuperscript{133} Cf. \textit{Navarro}, 446 U.S. at 463 n.10 (Court has never analogized express trusts to business entities for diversity purposes). See supra note 125 and accompanying text.

\textsuperscript{134} See \textit{Navarro}, 446 U.S. at 461-62.

\textsuperscript{135} See id. at 462.

\textsuperscript{136} See id.

\textsuperscript{137} See id. at 465-66. The Court cited Chappedelaine v. Dechenaux, 8 U.S. (4 Cranch) 306, 307-08 (1808), which held that trustees of an express trust were entitled to bring diversity actions in their own names, based on their own citizenship. See \textit{Navarro}, 446 U.S. at 462.
inquiries often yield the same result, the two nonetheless remain distinct. Indeed, the Court emphasized that the "two rules serve different purposes and need not produce identical outcomes in all cases." It thereby expressly distinguished the real party in interest of Rule 17(a) from the relevant real party for citizenship. The notion of real party for citizenship used in Navarro is no more than another way of identifying which persons had figured in Great Southern's "persons composing" test. Ever since that decision, courts have implicitly relied on the real party for citizenship concept to determine which persons should be deemed to compose a given association before applying a "persons composing" test.

Real party for citizenship does not lose its significance merely because it sometimes coincides with real party in interest. It is true, however, that courts often neglect to articulate real party for citizenship as a separate concept once real party in interest has been determined. In Navarro, the Supreme Court voiced a concept essential to the vitality of the "persons composing" test: real party for citizenship and real party in interest are clearly distinct, and it is real party for citizenship that determines whose citizenship is significant if the results of each inquiry are not identical. Thus, it is improper to analogize between individuals who traditionally may sue in their own right and associations, some members of which, by virtue of their designation as real parties in interest, may sue in a representative capacity on behalf of the association.

Considerations unrelated to jurisdictional considerations for unincorporated associations gave rise to the capacity to sue and real party in interest concepts. Neither was pertinent in the creation of the "persons composing" rule; neither is significant in its application.

138. See Navarro, 446 U.S. at 462 n.9. This is the usual result when individuals sue in their own names, as did the trustees in Navarro. See id. at 458-59.
139. See id. at 462 n.9.
140. See id.
141. In Navarro, the Court stated that only "persons" could be real parties to a controversy. See id. at 461. Historically, the unincorporated association has not been recognized as a "person," but rather as a mere collection of individuals. See id. The individuals qualify as the "persons" able to be real parties to the controversy. See id. The citizenship of these real party "persons"—the several individuals—determines diversity. See id. The real parties referred to are not the Rule 17(a) real parties in interest, but the real parties to the controversy, a distinction the Court explicitly makes later in its opinion. See id. at 462 n.9. Thus, it is the real parties to the controversy who are the "persons" in the traditional persons composing rule. See id. at 460.
142. Such obviously is the case where one individual sues another. Where a class has been certified, the named representatives are both real parties in interest and the only ones whose citizenship will be considered for diversity. See C. Wright & A. Miller, supra note 60, at 170.
143. See Navarro, 446 U.S. at 462 n.9. See supra note 141 and accompanying text.
144. See supra notes 66, 127-28 and accompanying text.
III. UNDERLYING POLICY CONSIDERATIONS FAVOR INCLUDING LIMITED PARTNERS IN THE DIVERSITY FORMULA

Whatever the realities of the early eighteenth century that gave rise to diversity jurisdiction, many modern judges and commentators agree that its principal justification, fear of local prejudice, is generally unfounded today. Since diversity accounts for a large percentage of cases heard by the federal courts, parties presenting genuine federal questions are delayed, and the federal system is overburdened.

Moreover, because it is often unclear which members of the limited partnership are truly "limited," application of a rule that looks to the citizenship of only general partners would be difficult. It is possible for some to have become general partners by exercising too much control. The "control" test comes from the ULPA, which unfortunately fails to

146. Legislative history concerning the adoption of diversity jurisdiction, both in the Constitution and in the Judiciary Act of 1789, is disappointingly scant. Some opposition to it was expressed even among the founding fathers, but little rationale for its support has been preserved. See The Historic Basis of Diversity Jurisdiction, supra note 4, at 487-88. Chief Justice Marshall alluded to "fears and apprehensions" on the part of aliens or citizens of different states who would otherwise find themselves before state tribunals. See Bank of the United States v. Deveaux, 9 U.S. (5 Cranch) 61, 87 (1809). Justice Story mentioned state prejudices and jealousies as the only reasons stated that could account for diversity. See Martin v. Hunter's Lessee, 14 U.S. (1 Wheat.) 304, 347 (1816). He offered no opinion on the soundness of the constitutional presumption that such prejudices existed. See id. James Madison, a proponent of diversity, believed that its need and therefore its existence would be only temporary, because Congress would return the power to hear diversity cases to the state courts once they were on "good footing." 3 Elliot's Debates on the Federal Constitution 536 (J. Elliot rev. ed. 1891).
148. OCA Statistics for the 12 months ended June 30, 1984 show that of the approximately 150,000 civil cases filed in federal court in which the United States was not a party, approximately 38% were diversity cases. See OCA Statistics, supra note 22, Table C-2, at 253-55. Diversity actions account for one third of all trials and one half of all jury days in federal court. See Rubin, supra note 22, at 18.
150. See, e.g., Van Arsdale v. Claxton, 391 F. Supp. 538, 540 (S.D. Cal. 1975) (limited partner involved with operation of enterprise is no longer sheltered); Delaney v. Fidelity
define "control." The RULPA retains the vague control test, but introduces a reliance factor as well. Consequently, a lengthy factual inquiry may often be necessary. As with any rule emanating from ad hoc determinations of fact, inconsistencies will arise, even within the same jurisdiction. Since the tests differ, discrepancies between ULPA and RULPA jurisdictions would certainly arise as well. Because a court may raise the issue of jurisdiction sua sponte, an appellate court that raises the issue may not have facts in the record on which to base a final determination, thereby necessitating remand and considerable delay. A certain amount of threshold litigation is unavoidable, but a new jurisdictional standard, derived through manipulation of procedural rules, further burdens the courts without conferring a corresponding benefit.

Concern has been expressed that the often harsh result of a rule that includes all members for diversity purposes would discourage the formation of limited partnerships. It is true that the limited partnership is a valuable vehicle for investors today, and its decline might have an adverse economic effect. The modern limited partnership, however, was "born" in 1822 and grew to be a significant feature of the business community in spite of the reign of the "persons composing" rule. Of course, any possible negative effect the test may have had on the growth of the limited partnership cannot be measured accurately. Nevertheless, "it takes some imagination to believe that limited partnerships would be

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151. "ULPA § 7 provides that "[a] limited partner shall not become liable as a general partner unless, in addition to the exercise of his rights and powers as a limited partner, he takes part in the control of the business." U.L.P.A. § 7 (1916).

152. "[I]f the limited partner's participation in the control of the business is not substantially the same as the exercise of the powers of a general partner, he is liable only to persons who transact business with the limited partnership with actual knowledge of his participation in control." R.U.L.P.A. § 303(a) (1976) (emphasis added).


154. In Navarro, Justice Blackmun's dissent troubled the majority because a case by case inquiry to identify the real parties in interest would present "serious difficulties [in determining] questions of diversity jurisdiction." Navarro, 446 U.S. at 464 n.13. The Court noted that "[i]t is of first importance to have a definition . . . [that] will not invite extensive threshold litigation over jurisdiction . . . ." Id. (quoting the ALI Study of the Division of Jurisdiction between State and Federal Courts 128 (1969)).

155. See, e.g., Limited Partners and Diversity, supra note 19, at 315-16 (allowing limited partnerships a federal forum would promote commerce); 16 Duq. L. Rev. 221, 234 (1977-78) (denying federal forum deters formation of limited partnerships); 46 Geo. Wash. L. Rev. 657, 666 (1978) (applying traditional rule is likely to deter economic growth).

156. Limited partners are creatures of statute, with the first such law adopted by New York. See 1822 N.Y. Laws 259. See ALI Materials 1985, supra note 99, at 34-35 for a history of the limited partnership.

157. The rule began with Chapman v. Barney, 129 U.S. 677, 682 (1889) (citizenship of "all the members" determines diversity), and was most recently approved by the Supreme Court in Navarro Sav. Ass'n v. Lee, 446 U.S. 458, 461 (1980) (citing Chapman as rule for determining unincorporated associations' diversity status).
created in deliberate anticipation of a need for diversity jurisdiction.\textsuperscript{158} It takes as much imagination to believe that a significant number of limited partnerships would not be created for fear of some future dispute in which they might be denied access to federal court.\textsuperscript{159} A limited partnership may find itself as either plaintiff or defendant and, therefore, might wish to avoid federal jurisdiction as often as it might wish to seek it. It is ironic that in \textit{Colonial Realty Corp. v. Bache & Co.},\textsuperscript{160} the seminal case excluding limited partners, the limited partnership argued in favor of the traditional rule requiring the citizenship of each member to be counted and that complete diversity was lacking.\textsuperscript{161} Thus, providing a federal forum for limited partnerships does not justify manipulating a well established principle.

\textbf{CONCLUSION}

Neither the Federal Rules of Civil Procedure, nor the Supreme Court's treatment of unincorporated associations, nor the policies underlying diversity as a basis for federal jurisdiction support granting limited partnerships easier access to federal courts by considering only the citizenship of general partners. Moreover, diversity's depletion of the federal judiciary's resources without any corresponding benefit militates against manipulation of nonjurisdictional rules to achieve a jurisdictional result. The \textit{Navarro} Court was wise to reaffirm the vitality of the "persons composing" rule, just as the \textit{Bouligny} Court was prudent in declining to modify it, leaving any such decision in the hands of Congress.

\textit{Hedwig M. Auletta}

\textsuperscript{158} Carlsberg Resources Corp. v. Cambria Sav. & Loan Ass'n, 554 F.2d 1254, 1265-66 (3d Cir. 1977) (Hunter, J., dissenting).
\textsuperscript{159} In an extensive list of relevant non-tax factors to be considered when deciding on an appropriate type of business form, the difficulty of access to federal court in a future diversity case was not mentioned in ALI Materials 1983, supra note 26, at 8-9.
\textsuperscript{160} 358 F.2d 178 (2d Cir.), cert. denied, 385 U.S. 817 (1966).
\textsuperscript{161} Id. at 183.